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UNITED NATIONS RELIEF AND WORKS AGENCY FOR PALESTINE REFUGEES IN THE NEAR EAST

Note by the Secretary-General

1. The Secretary-General has received the annexed special report on the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which was submitted by the Commissioner-General pursuant to paragraph 21 of General Assembly resolution 302 (IV) of 8 December 1949.

2. In his special report, the Commissioner-General draws attention to the critical state of UNRWA's finances, the serious structural deficit facing the Agency, the austerity measures already taken to reduce the deficit as much as possible, the impact of the measures on the quality and level of services to Palestine refugees and the implications of the reduction of services for the stability of the area.

3. The Commissioner-General held an extraordinary meeting of major donors and host Governments in Amman on 23 September 1996. Pledges totalling almost $15 million were made, of which $11.25 million was for UNRWA's regular budget for the remainder of 1996. Other donors promised funds subject to parliamentary approval. Together those funds would allow the Agency to meet its minimum obligations for 1996. However, despite indications of slight increases in funding for 1997, the structural deficit will continue into future years unless steps are taken by present and potential donors to close the gap between the essential needs of Palestine refugees and resources made available. On his part, the Commissioner-General intends to review existing operational structures, re-examine the planning assumptions underlying budget preparation and rationalize further budgetary allocations so that the structural deficit can be dealt with while maintaining the quality and level of the Agency's basic and essential services.

4. In making this special report available to Member States, the Secretary-General wishes to express his deep concern over the financial situation

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confronting the Agency and, in particular, over the consequences if adequate financing for 1997 and beyond is not made available. He therefore emphasizes his support for the Commissioner-General's appeal for adequate funds to bridge the gap projected for 1997 and to deal with the structural deficit.

ANNEX

Special report of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East on the financial crisis of the Agency

1. In recent years, UNRWA has for the first time in its history suffered from continuing funding shortfalls in contributions to its regular budget, arising mainly from stagnant or declining contributions and increasing needs as a result of demographic growth, new refugee registrations and inflation. In 1993 and again in 1994, UNRWA undertook measures to reduce the gap between resources and needs, through, inter alia, freezing and reducing expenditure on procurement, travel, posts, recruitment and salary increases for area staff. Despite those measures, the Agency ended the 1992-1993 biennium with an adjusted deficit of $17.1 million in its regular budget, and the 1994-1995 biennium with an adjusted deficit of $14.4 million. The latter deficit reduced the Agency's working capital by more than half.

2. The General Assembly, in its resolution 50/28 A of 6 December 1995, extended the Agency's mandate until June 1999, and noted with profound concern that the structural deficit problem confronting the Agency portended an almost certain decline in the living conditions of Palestine refugees and therefore had possible consequences for the peace process. The Assembly called upon all Governments, as a matter of urgency, to make the most generous efforts possible to meet the anticipated needs of the Agency.

3. In January 1996, the Agency's working capital was reduced to $8.2 million, far below the minimum requirement of $60 million to cover two months' expenditure. In May 1996, a budget deficit of $16 million was estimated for the year, exclusive of a $12.7 million provision for termination indemnities payable to area staff upon the Agency's eventual dissolution, and $14.2 million required to offset the austerity measures in place since 1993. To contain expenditures not yet incurred, the Agency in June 1996 implemented a further $9 million in austerity measures which were selected to minimize adverse effects on direct services.

4. Throughout 1996, the Commissioner-General continued to warn major donor and host Governments of the widening deficit facing the Agency. In his annual report to the General Assembly on the work of UNRWA for the year ending 30 June 1996, the Commissioner-General referred to the cumulative effect of the austerity measures and the deficit figures on the quality of UNRWA services to the 3.3 million Palestine refugees registered with the Agency. Lack of sufficient funds prevented the Agency from expanding services at a rate commensurate with growth in the Palestine refugee population, while successive rounds of belt-tightening were progressively downgrading the level of services and giving rise to longer-term costs. The Commissioner-General advised that austerity measures did not produce savings: at best, they effected a short-term reduction in deficit figures while leaving behind problems with visible and invisible costs, whose full and cumulative impact would unfold in future years. Such measures invariably affected programme support functions as well.

5. By September 1996, delayed payments by donors had created a severe cash flow problem, which would bring Agency operations to a standstill in October unless donor payments were received promptly. The Agency required a minimum cash flow of $17 million per month simply to meet the payroll. It had become clear that unless adequate financing was made available to cover budgetary needs for the remainder of 1996 and to deal with the structural deficit in 1997 and beyond, the Agency would be forced to reduce services drastically, which would entail the mass termination of programme field staff such as teachers, doctors and social workers.

6. The Agency estimated that to continue services at current levels and fulfil its commitments and obligations, it would require funds to cover:

(a) The 1996 core deficit, conservatively estimated at $9.3 million (representing half of a month's payroll);

(b) The cumulative deficit of $32.5 million, which represented $9.3 million of the core deficit under (a) above, plus $23.2 million required to restore the austerity measures introduced in 1993 and in 1996;

(c) The cumulative deficit of $32.5 million in (b) above, plus $12.7 million to be set aside each year for the termination indemnity fund, i.e., a total of $45.2 million.

7. In view of the deteriorating situation and in order fully to consult and involve the international community, the Commissioner-General convened an extraordinary meeting of major donors and host Governments in Amman on 23 September 1996. The objectives of the meeting were to discuss the financial crisis and its damaging impact on UNRWA's ability to carry out its internationally mandated obligations, to request urgent assistance to resolve the immediate crisis and to initiate discussion on longer-term solutions. In the light of UNRWA's unique role in the region, a deterioration or a reduction of UNRWA services would have significant political ramifications and be potentially destabilizing. Any such move would be immediately interpreted as reflecting a weakening of the commitment of the international community to the resolution of the problem of the Palestine refugees.

8. The 27 participants at the Amman meeting had received a paper prepared by UNRWA which outlined the impact of austerity measures on the Agency's operations, e.g., fewer audits, reduced numbers of programme staff in the field, reduced maintenance of premises such as schools and clinics, use of obsolete equipment and inability to introduce the changes required to maintain standards. The Agency's programmes were severely affected, inter alia, through unacceptably high workloads for teachers and doctors, overcrowded classrooms and dilapidated premises, which had negative implications for the quality of health care and education. In relief and social services, the most severe impact was on the poorest and the neediest of the refugees, those least able to fend for themselves.

9. Delegates were advised that in addition to the direct impact of austerity measures on programmes and services, the political and social implications of such measures and reductions and the potential for a backlash should be borne in

mind. Implementation of austerity measures had led to great resentment on the part of refugees and criticism from host Governments, who interpreted those measures as a reduction in UNRWA services. Lack of adequate funding was perceived by the refugee community as an abandonment of the refugee issue by the international community and an intolerable pre-emption of the final status negotiations.

10. The Commissioner-General had also approached the Working Group on the Financing of UNRWA, which discussed UNRWA's financial crisis and adopted a paper which strongly urged participants at the extraordinary meeting to take serious and concrete steps to provide the financial resources which UNRWA needed, so as to avoid creating an even more serious crisis with far-reaching implications for the Palestine refugees and the entire region.

11. When peace negotiations were in full swing, the international community had recognized the importance of demonstrating the concrete benefits of peace for Palestine refugees not only in the Gaza Strip and the West Bank, but also in Jordan, Lebanon and the Syrian Arab Republic. Donors had, inter alia, generously responded to the Agency's Peace Implementation Programme, providing funds for special projects in all fields of operation. Now that the peace process had reached a more delicate stage in its evolution, it was all the more critical that Palestine refugees be able to sustain their hopes for a successful outcome.

12. There were no more austerity measures that the Agency could implement; the next steps would lead ineluctably to actual cuts and shutdowns in installations and services. As the Agency was the main provider of services to Palestine refugees in Jordan, the Syrian Arab Republic, the West Bank and the Gaza Strip, and the only provider in Lebanon, the human cost of any significant reduction would be high. Nor would it be feasible or cost-effective to shut down field operations in the hope that these could be restarted once the Agency's financial situation improved. New initiatives such as harmonization of services would also have to be slowed.

13. The prudent conduct of the Agency's operations and the optimal allocation of limited resources was the responsibility of the Commissioner-General and senior management. It was also within the legal and financial prerogative of the Commissioner-General to reduce services in the face of budgetary shortfalls. However, responsibility for the provision of adequate resources rested firmly and squarely with the international community.

14. In the final quarter of 1996, the international community was faced with three possible options:

(a) That the international community finance the deficit amounts so that services might continue uninterrupted. Depending on how much additional financing was provided, some of the austerity measures might or might not be restored. Measures not restored would continue to have an adverse impact on services. If only the core amount of $9.3 million was provided, the austerity measures totalling $23.5 million would be carried forward into succeeding years. The structural deficit would continue and worsen unless it was confronted and dealt with in a comprehensive manner now;

(b) That the international community, in full awareness of the consequences, agree that the Agency, in the face of the chronic, mounting and structural deficit, had no option but to effect direct cuts and reductions, including closing some schools and clinics, turning away pupils and patients and terminating staff. Those cuts and reductions could be implemented globally, across-the-board, in certain fields only, in subprogrammes or in entire programmes. It should be noted that such retrenchment would necessarily lead to skewed and unequal distribution of available resources among fields and programmes and result in an outcry from refugees placed at a disadvantage. On its part, the Agency was identifying key priorities and unavoidable essential activities and incorporating them in a core budget within the resources available. That category would be the last to be affected by cuts. A second echelon of priorities would include activities which would depend on funding beyond the core needs;

(c) That the Agency keep going until all available funds were used up, then declare itself insolvent and go out of business. That course, though mentioned here, would be highly irresponsible on the part of UNRWA, as any phasing out should be authorized by the General Assembly, and duly planned, financed and implemented.

15. Having brought the Agency's predicament to the attention of the international community, the Commissioner-General was most appreciative of the results of the extraordinary meeting. Donors pledged almost $15 million, of which $11.25 million represented additional funding for the regular budget in 1996, an amount that would enable the Agency to meet its minimum obligations for the year. A number of donors indicated that additional funds would be forthcoming, subject to administrative and parliamentary approval. It was estimated that those funds would permit the Agency to avoid shutting down essential programmes and enter 1997 with a working capital covering one to two weeks of operations.

16. Some donors indicated increased amounts for the regular budget in 1997. However, it was clear that in the absence of additional measures, the Agency would not be able to manage the structural deficit, which could exceed $60 million, taking into account the indications received at the meeting. UNRWA has begun a management review to restructure and rationalize functions, in an effort to achieve greater accountability, transparency and efficiency, and to contain costs. In addition, the Agency has initiated an exercise to rethink its budget planning assumptions, in an effort to rationalize budgetary allocations. Efforts will continue to expand the Agency's donor base, and a mechanism allowing for a continuing dialogue with major donors, host Governments and the Palestinian authorities will be established.

17. It is hoped that the international community, working closely with UNRWA, will make the necessary funds available for 1997, which, together with the Agency's internal reform processes, will do away with the structural deficit, set the Agency back on track with a more rational relationship between income and needs, and allow services to be delivered to Palestine refugees at an acceptable level.

18. The delegates requested another meeting to review the situation, to take place after the Pledging Conference for UNRWA, but prior to the end of the year.

19. Through all its trials and tribulations, the Palestine refugee community has shown a resilience and a capacity to survive that has helped to make UNRWA one of the United Nations system's most valid programmes and an extraordinary success story. It would be regrettable for the international community to allow this programme to be so drastically affected, when a special effort on the part of existing and new donors could ensure its continuation.